

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL  
LEGISLATURE AND COUNCIL ON THE FINANCIAL STATEMENTS AND  
PERFORMANCE INFORMATION OF UMNGENI MUNICIPALITY FOR THE YEAR  
ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the uMngeni Municipality which comprise the statement of financial position as at 30 June 2009, the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Standard of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by

entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the uMngeni Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the uMngeni Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with Standards of GRAP and in the manner required by the MFMA.

### **Emphasis of matters**

Without qualifying my opinion, I draw attention to the following matters:

#### **Irregular expenditure**

9. As disclosed in note 35 to the financial statements, irregular expenditure to the amount of R100 764 was incurred due to non-compliance with section 167 of the MFMA.

#### **Material losses**

10. As disclosed in note 18 to the financial statements, electricity distribution losses of R12,953 million (43 308 216 kilowatt hours) were incurred during the year.

#### **Other matters**

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

#### **Unaudited supplementary schedules**

11. The municipality provided supplementary information in appendices E1 and E2 to the financial statements on whether resources were obtained and used in accordance with the legally adopted budget as per GRAP 1: *Presentation of Financial Statements*. The supplementary budget information and other supplementary information set out on pages XX to XX do not form part of the financial statements and are presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

#### **Governance framework**

12. The governance principles that impact the auditor's opinion on the financial statements relate to the responsibilities and practices of the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

## Key governance responsibilities

13. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	<input type="checkbox"/>	
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		<input type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	<input type="checkbox"/>	
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines, as set out in section 126 of the MFMA.	<input type="checkbox"/>	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	
<b>Development of and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The municipality had an audit committee in operation throughout the financial year.</li> </ul>	<input type="checkbox"/>	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	<input type="checkbox"/>	
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	<input type="checkbox"/>	
7.	Internal audit		
	<ul style="list-style-type: none"> <li>The municipality had an internal audit function in operation throughout the financial year.</li> </ul>	<input type="checkbox"/>	
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	<input type="checkbox"/>	
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	<input type="checkbox"/>	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	<input type="checkbox"/>	

No.	Matter	Y	N
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	<input type="checkbox"/>	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	<input type="checkbox"/>	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan is documented and used, as set out in section 62(1)(c)(i) of the MFMA.	<input type="checkbox"/>	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	<input type="checkbox"/>	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	<input type="checkbox"/>	
14.	SCOPA/Oversight resolutions have been substantially implemented.	<input type="checkbox"/>	
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	<input type="checkbox"/>	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		<input type="checkbox"/>
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the uMngeni Municipality against its mandate, predetermined objectives, outputs, indicators and targets, as set out in section 68 of the MFMA.		<input type="checkbox"/>
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		<input type="checkbox"/>

14. A clear trail of documents, coupled with the availability of officials and commitment from leadership, was evident throughout the auditing process. However, due to a number of correcting journals and disclosure amendments that arose from the audit, the financial statements were not of a desired quality. This was due to the lack of adequate leadership/supervision and monitoring.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Report on performance information**

15. I have reviewed the performance information as set out on pages xx to xx.

### **The accounting officer's responsibility for the performance information**

16. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the

municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### **The Auditor-General's responsibility**

17. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
18. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
19. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

### **Findings on performance information**

#### **Non-compliance with regulatory requirements**

##### **Content of integrated development plan**

20. The integrated development plan of the uMngeni Municipality did not include the key performance indicators and performance targets set in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

##### **Existence and functioning of a performance audit committee**

21. The performance audit committee did not:
  - meet at least twice during the financial year
  - review the internal auditors' quarterly reports on their audits of the municipality's performance measurements
  - review the uMngeni Municipality's performance management system and make recommendations in this regard to the council of the uMngeni Municipality
  - submit an auditor's report to the uMngeni council regarding the performance management system at least twice during the financial year.

##### **Internal auditing of performance measurements**

22. The uMngeni Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

##### **Lack of adoption or implementation of a performance management system**

23. The uMngeni Municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted,

organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

## **APPRECIATION**

24. The assistance rendered by the staff of the uMngeni Municipality during the audit is sincerely appreciated.

Pietermaritzburg

30 November 2009



**A U D I T O R - G E N E R A L**  
**S O U T H   A F R I C A**

*Auditing to build public confidence*



# Report of the Auditor-General



## Report of the Auditor-General to the KwaZulu-Natal Provincial Legislature and Council on the Financial Statements and performance information of uMngeni Municipality for the year ended 30 June 2009

### REPORT ON THE FINANCIAL STATEMENTS

#### Introduction

1. I have audited the accompanying financial statements of the uMngeni Municipality which comprise the statement of financial position as at 30 June 2009, the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 34 to 67.

#### The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 et seq. of the Standard of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the uMngeni Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the uMngeni Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with Standards of GRAP and in the manner required by the MFMA.



## Report of the Auditor-General

### Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters:

#### Irregular expenditure

9. As disclosed in note 35 to the financial statements, irregular expenditure to the amount of R100 764 was incurred due to non-compliance with section 167 of the MFMA.

#### Material losses

10. As disclosed in note 18 to the financial statements, electricity distribution losses of R12 953 million (43 308 216 kilowatt hours) were incurred during the year.

#### Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

#### Unaudited supplementary schedules

11. The municipality provided supplementary information in appendices E1 and E2 to the financial statements on whether resources were obtained and used in accordance with the legally adopted budget as per GRAP 1: Presentation of Financial Statements. The supplementary budget information and other supplementary information set out on pages 39 to 46 do not form part of the financial statements and are presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

#### Governance framework

12. The governance principles that impact the auditor's opinion on the financial statements relate to the responsibilities and practices of the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

#### Key governance responsibilities

13. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No. Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>		
1. No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
<b>Quality of financial statements and related management information</b>		✓
2. The financial statements were not subject to any material amendments resulting from the audit.	✓	
3. The annual report was submitted for consideration prior to the tabling of the auditor's report	✓	
<b>Timeliness of financial statements and management information</b>	✓	
4. The annual financial statements were submitted for auditing as per the legislated deadlines, as set out in section 126 of the MFMA.	✓	
<b>Availability of key officials during audit</b>	✓	
5. Key officials were available throughout the audit process.	✓	





No. Matter	Y	N
<b>Development of and compliance with risk management, effective internal control and governance practices</b>		
6. Audit committee		
• The municipality had an audit committee in operation throughout the financial year.	✓	
• The audit committee operates in accordance with approved, written terms of reference.	✓	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	✓	
7. Internal audit		
• The municipality had an internal audit function in operation throughout the financial year.	✓	
• The internal audit function operates in terms of an approved internal audit plan.	✓	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	✓	
8. There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9. There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10. The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11. A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan is documented and used, as set out in section 62(1)(c)(i) of the MFMA.	✓	
12. Delegations of responsibility are in place, as set out in section 79 of the MFMA.	✓	
<b>Follow-up of audit findings</b>		
13. The prior year audit findings have been substantially addressed.	✓	
14. SCOPA/Oversight resolutions have been substantially implemented.	✓	
<b>Issues relating to the reporting of performance information</b>		
15. The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16. Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17. A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the uMngeni Municipality against its mandate, predetermined objectives, outputs, indicators and targets, as set out in section 68 of the MFMA.		✓
18. There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		✓

14. A clear trail of documents, coupled with the availability of officials and commitment from leadership, was evident throughout the auditing process. However, due to a number of correcting journals and disclosure amendments that arose from the audit, the financial statements were not of a desired quality. This was due to the lack of adequate leadership/supervision and monitoring.



# Report of the Auditor-General

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on performance information

15. I have reviewed the performance information as set out on pages 16 to 20.

### The accounting officer's responsibility for the performance information

16. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### The Auditor-General's responsibility

17. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008 and section 45 of the MSA.

18. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

19. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

### Findings on performance information

#### Non-compliance with regulatory requirements

##### Content of integrated development plan

20. The integrated development plan of the uMngeni Municipality did not include the key performance indicators and performance targets set in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

##### Existence and functioning of a performance audit committee

21. The performance audit committee did not:

- meet at least twice during the financial year
- review the internal auditors' quarterly reports on their audits of the municipality's performance measurements
- review the uMngeni Municipality's performance management system and make recommendations in this regard to the council of the uMngeni Municipality
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##### Internal auditing of performance measurements

22. The uMngeni Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

##### Lack of adoption or implementation of a performance management system

23. The uMngeni Municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

### Appreciation

24. The assistance rendered by the staff of the uMngeni Municipality during the audit is sincerely appreciated.

*AUDITOR-GENERAL*

Pietermaritzburg  
30 November 2009



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*